



**STEVE WESTLY**  
**California State Controller**

October 29, 2003

To Certified Public Accountants Performing Audits of K-12 Local Educational Agencies, Joint Powers Entities, and County and District Superintendents

Subject: Annual Audits for Fiscal Year 2002-03

This audit guide advisory provides additional information to assist independent auditors in performing fiscal year 2002-03 audits of local educational agencies and joint powers entities. Since issuing the K-12 Audit Guide in April 2003, the State Controller's Office (SCO) has made revisions in July 2003 and has noted additional issues that need to be addressed. The following is a list of procedural, technical, and compliance-related issues.

**Procedural**

1. Requests for "Audit Report Filing Extensions" are due to the SCO and the California Department of Education (CDE) no later than December 1, 2003. All requests must be approved and submitted by the respective county office of education. Extensions will be granted only under extraordinary circumstances.
2. Fiscal year 2002-03 audit reports must be filed with the SCO, CDE, and county superintendent of schools by December 15, 2003.

**Technical**

Assembly Bill 300, which has been signed by the Governor, amended *Education Code* Sections 46201 and 46202. These sections pertain to Instructional Time Penalty calculation. School districts that participated in the instructional time incentive program and failed to provide the required number of instructional minutes will only be assessed one penalty. The Incentives for Longer Instructional Day Compliance Requirements (Page 87) were revised to read as follows:

If a school district that participated in the instructional time incentive funding failed to offer the number of minutes shown above or the number of minutes it offered in the 1982-83, whichever is greater, then a penalty is assessed as outlined in *Education Code* Section 46201(d).

If a school district did not participate in the instructional time incentive funding program, then it must offer at least the amount of minutes it offered in 1982-83. If a school district failed to offer at least the amount of minutes it offered in 1982-83, a penalty is assessed as outlined in *Education Code* Section 46202(b).

Please refer to <http://www.cde.ca.gov/fiscal/audit/itpenaltycalc.xls> for the penalty calculation.

The Schedule of Instructional Time is required for all school districts including basic aid school districts.

Please refer to the CDE homepage (<http://www.cde.ca.gov>) for the implementation schedule of GASB 34 for your district. Earlier implementation is permitted.

The Illustrative Audit Report, Government Accounting Standards Board (GASB) statement 34, *Appendix B*, was revised in July 2003. It is available on the SCO homepage at <http://www.sco.ca.gov>.

Staff Development Days suggested audit procedures increased to four procedures. Suggested audit procedure number four reads as follows:

If any funded staff development days were inappropriately reported, report the finding in the audit report and identify the ineligible funding claimed and the total funding the LEA was eligible to receive.

Schiff-Bustamante Standards-Based Instructional Materials should be audited for carry-over funds only. The audit work in this area should be minimal.

### **Compliance**

The SCO's annual audit report certification process is very time consuming. Significant time is spent corresponding with independent auditors regarding audit report deficiencies. To expedite the process, the following items should be addressed in each of the audit reports:

- Auditor's Report on State Compliance should include an explanation if certain procedures were not performed or if alternate procedures were performed.
- All audit findings should be quantified. Section 450 of the K-12 Audit Guide states that pursuant to *Education Code* Section 14503(a), "if a school district is not in compliance with a requirement that is a condition of eligibility of receiving state funds, the audit report shall include a statement of the number of units of average daily attendance, if any, that were inappropriately reported for apportionment." This also applies to non-attendance-driven or categorical educational programs (e.g., Class Size Reduction, Incentives for Longer Instructional Day, Staff Development, and State Instructional Materials Fund).
- Audit findings should include an adequate description of the deficiency or noncompliance and when applicable must state whether an incident is isolated or districtwide. Section 336 of the K-12 Audit Guide states that it is inadequate for the auditor to solely identify and report exceptions without determining if further testing is needed or if the auditee should review or reconstruct relevant records and quantify the related fiscal impact.
- Recommendations should include a statement that appropriate reports (Report of Attendance, J-7CSR,) should be revised or that the local educational agency may be required to return funding it received.

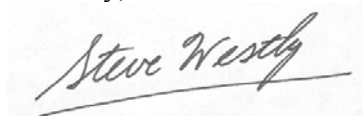
As in the past, the SCO will not accept audit reports in which the independent auditor failed to perform any of the following:

- Include an adequate explanation in the Auditor's Report on State Compliance;
- Quantify any audit findings;
- Adequately describe the deficiency or noncompliance;
- State whether an incident is isolated or districtwide; and
- Recommend a revision to any appropriate reports or a return of state funds.

This audit guide advisory is available via the Internet on the SCO homepage at <http://www.sco.ca.gov>.

Should you have any questions or need additional information, please contact Casandra Moore-Hudnall, Chief, Financial Audits Bureau, Division of Audits, at (916) 322-4846.

Sincerely,



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California State Controller